This is SAC weekly newsletter for 29 Dec 2021

Market Moves

The advance GDP estimate for Q4 and 2021 will be unveiled on 3 Jan. The official forecast is 6%-7% for the full year. At the higher end, this would imply a 5.2% yoy growth for Q4. The estimates are based on data for Oct and Nov, which were spectacular. Singapore's NODX rose 24.4% yoy in Nov (Oct: +17.8%) led mainly by semicon (+39.9%), personal computers (+54.3%) and petrochemicals (+66.0%). However, the flood in Malaysia could slow Dec growth.

In the same vein, Malaysia Nov exports surged 32.4% yoy (Oct: +25.5%), led by electronics (+17.4%), petroleum products (+111.6%), palm oil (+97.4%) and LNG (+99.5%). The country has become a key semicon hub, accounting for 7% of global semicon trade and 13% share of capacity for back-end testing and assembly. This could grow with Intel's recently-announced plans to invest US$7.1bn in Penang over the next ten years. AEM, UMS, Grand Venture and Frencken are well-positioned to ride on this. The same goes for cleanroom glove maker Riverstone and suppliers of metals such as aluminium alloy (Soon Lian).

The tide of de-listings on SGX appears unabated. Close on the heels of United Global, Koufu announced a privatisation offer that could potentially shave S$425m from SGX market value. Some commonalities among the de-listings are 1) cash-rich; 2) under-valued assets; and 3) the controlling shareholders own a majority stake. Low valuation, cheap cost of funds and a plethora of fund-raising options reduce the appeal of staying listed. Not helping the situation is the fact that reduction in capex spend due to COVID uncertainty and fiscal stimuli had raised the cash holdings in the balance sheets.

SGX kicked off its SPAC programme with Vertex Venture Holdings receiving the ETL to list Vertex Technology Acquisition Corporation (VTAC) as a special purpose acquisition company (SPAC) on the SGX. Vertex plans to subscribe for S$30m worth of units in VTAC and up to S$10m in warrants in a private placement concurrent with the listing. Separately, Tikehau Capital and Financiere Agache has also received an ETL to list Pegasus Asia as a SPAC.

Valuation of the high-growth internet sector has corrected. Grab's share price has halved since its listing on 2 Dec. SEA Ltd lost 21% in Dec, and YTD gain has shrunk to 7.5%. Rising US interest rates and tightening liquidity weigh on the valuations and investor appetites for growth companies, posing a challenge for SPACs.

Thank you so much for reading our reports and your interest in our work. We wish you all the best for 2022.

Analysts' Notes

More companies are scrutinising their supply chains to reduce risks associated to ESG. In previous month, Dyson has split with its Malaysia parts supplier's ATA over forced labour allegations. Recently, production on Foxconn plant in Southern India was halted after its workers suffered from mass food poisoning. Apple only allows reopening of the plant only if improvement to the worker dormitories met their standard. Impacts on the affected companies are substantial. For ATA, Dyson accounts for ~80% of its total revenue. While environmental impact, "E" in ESG, is what investors are most familiar and concerned with, the other 2 components "S" & "G" in companies should warrant more queries from investors going forward. *(Lim Shu Rong)*

Ascott Residence Trust | ART is looking to acquire four student accommodation properties in the US for US$213.0m. The acquisition is expected to have an EBITDA yield of 4.9% and is DPS accretive at 3.0% on a FY2020 pro forma basis. The acquisition is 92% funded by debt and the rest funded through proceed from Sep private placement. Post-acquisition, net gearing ratio will be at 37.8%. With the addition of this acquisition, ART has invested in 11 longer-stay assets (3 rental housing and 8 student accommodation) in 2021. Longer-stay assets will make up ~16% of ART's total portfolio. ART is planning to increase longer-stay assets in its overall portfolio to 20% in the medium term. We believe that these longer-stay assets will provide income stability while the hospitality sector continues its path of recovery from the pandemic. *(Lam Wang Kwan)*

Keppel DC REIT | KDCREIT is acquiring its

Company News

Shanaya Limited (BBG: SHANAYA) is exploring opportunities in organic recycling for food and packaging waste with TRIA Pte Ltd. Both will participate in a 6-month trial to recycle waste collected from a fast-food chain. The Group provides waste collection services while TRIA provides its patented digestion technologies. A fee is payable to Shanaya for operating its technology. Positive result from the trial could see both parties working together exclusively for a longer term.

Separately, Shanaya plans to form a JV with P. Restorer Pte Ltd to operate the business of plastic waste recycling for industrial use, subjected to authorities' approval. Shanaya will hold a 49% stake in the JV. Profits generated by the JV will be distributed according to their respective shareholdings. Shanaya will also be paid a monthly fee to operate a recycling plant for the JV. Both parties shall fund the JV with a S$2.0m non-interest bearing, convertible loan each.

Koufu Group (BBG: KOUFU). The major shareholders, with a stake of 77.41%, made a conditional privatisation offer at S$0.77/sh in cash. The offer is conditional on them securing 90% of more of the company at close. The offer price is at a 15.8% premium to the last traded price. Koufu has net cash of S$68.8m (S$0.124/sh) as at Jun 21. The offer price values Koufu at 16.3x FY21E PE ex-cash, based on our estimates.

GP Industries (BBG: GPI) proposes a 1 for 1 distribution of shares in unlisted GP Energy Tech second data centre in UK for £57.0m. The property is fully leased to a leading telecommunications company till 2039, increasing the KDCREIT's WALE from 7.7 years to 8.1 years. The acquisition is expected to complete in 1Q20 and will be funded by a combination of proceed from its recent private placement and external financing. The Manager expects the acquisition to be DPU accretive. This is KDCREIT's third acquisition for the year, having acquired a data centre in Guangdong and 2 data centre buildings in Eindhoven earlier this year. KDCREIT has also completed the investment in M1 network assets through the subscription of bonds and preference shares last week. *(Lam Wang Kwan)*

CapitaLand Integrated Commercial Trust | CICT has entered into an agreement to acquire its 3rd Sydney property within the month. CICT is looking to acquire a 50% stake in an integrated development with premium grade office and retail space for A$422.0m, having earlier proposed to acquire 2 office buildings for A$330.7m. The acquisitions are expected to provide a combined DPU accretion of 2.8% based on annualised pro forma 1H21 basis. The A$1.1b worth of Sydney assets are expected to form 5% of CICT's portfolio property value post acquisition and becoming its third market after Singapore and Frankfurt. The acquisitions are expected to be funded partially by debt, increasing CICT aggregate leverage to about 41% post-acquisition. *(Lam Wang Kwan)*

or cash of S$0.078522 per share, equivalent to the net assets of GP Energy Tech (~S$38m). GP Energy Tech has ~S$21.3m in cash and no debt, we estimate. Major 85.59% shareholder Gold Peak Industries (Holdings) Ltd has opted to take shares. GP Energy Tech runs the loss-making (1H22 Sep: net loss S$2.3m) rechargeable battery business. After the distribution, GP Industries will focus on the production of primary and specialty batteries for OEMs and house brands, and electronics and acoustics business.

If all minority shareholders opt for cash, GP Industries' stake in GP Energy will be diluted to 14.41%. Gearing will rise to 0.84x (from 0.73x) and NTA 8.9% lower at S$0.8042/sh after paying S$5.5m to minority shareholders and stake dilution.